

P336
B0

NATIONAL FINANCE; AN IMMINENT PERIL.

BY
THOMAS GIBSON BOWLES, M.P.

*"I have a doubt whether the magnificent robes,
"which the Chancellor of the Exchequer wears upon
"occasion, carry with them all the virtues and all the
"wisdom of all his predecessors."*

—MR. J. CHAMBERLAIN, 16th Dec., 1903.

*"Il fallait un calculateur; ce fut un danseur qui
"l'obtint."*

—M. DE BEAUMARCHAIS.

23rd THOUSAND.

PRICE SIXPENCE.

LONDON:
T. FISHER UNWIN, 11, PATERNOSTER BUILDINGS
PATERNOSTER ROW, E.C.

1904

The reader is referred, for verification of the figures quoted, to the following official publications :—

THE APPROPRIATION ACT, 1904.

FINANCE ACCOUNTS OF THE UNITED KINGDOM,
1893-94. No. 193 of 1894. Price 6d.

FINANCE ACCOUNTS OF THE UNITED KINGDOM,
1903-4. No. 219 of 1904. Price 5½d.

PUBLIC INCOME AND EXPENDITURE (Sir H. Fowler's
Return). No. 277 of 1904. Price 5d.

STATISTICAL ABSTRACT FOR THE UNITED KINGDOM,
from 1889 to 1903. 51st number, Cd. 2192 of 1904
Price 1/3.

ESTIMATES (Army, Navy, & Civil Service), 1893-4 and 1903-4.

PUBLIC REVENUE (Interception) RETURN. Parliamentary
Paper, No. 253 of 1904.

NATIONAL DEBT. Cd. 2065 of 1904. Price 4½d.

BANK OF ENGLAND. APPLICATIONS BY THE FIRST
LORD OF THE TREASURY and THE CHANCELLOR
OF THE EXCHEQUER, FOR ADVANCES. No. 42 of
1904. Price 1d.

BUDGET SPEECH OF MR. AUSTEN CHAMBERLAIN,
CHANCELLOR OF THE EXCHEQUER. 19 April,
1904 (Hansard).

336.0941

B681n

NATIONAL FINANCE:

AN IMMINENT PERIL.

How inordinately the National Expenditure has recently been increased, how extravagantly the National Indebtedness has been added to, how confused our National Finances are, how dangerous the course they are taking, how perilous their present position, and how inadequate all the checks upon extravagant expenditure and outrageous debt have become, is barely suspected by any but the few who devote themselves to the study of Finance. To sound an alarm, to show the exaggeration of the national expenditure as recently developed, and of the national liabilities as recently increased; and also to disclose the inadequacy of the control of Parliament, and the urgent and pressing need for prompt action, is the purpose of this paper.

The difficulty of arriving at the total national revenue or expenditure is very great. For the national accounts are unsystematic, unscientific, complicated, and so presented as to conceal and even to falsify the facts. It is necessary to have intimate acquaintance with the accounts in order to arrive at even an approximation to the whole truth. So involved are these accounts, and so hidden away many of the items, that scarce any but a Treasury official can be certain of exact accuracy. The figures here cited must be taken, therefore, with this reservation; but they are all quoted from official documents; they represent an attempt, made with no inconsiderable labour, to exhume the whole figures so as to place the whole truth before the public;

and they will be found to be substantially complete and accurate.

STATE REVENUE.

(1) The total State revenue paid into the Exchequer in 1903-4 was £141,545,578. This is what the Chancellor of the Exchequer deals with in his Budget, and this is by many imagined to be total revenue of the State. That is far from being so.

(2) In addition to the 141½ millions of Exchequer Revenue in 1903-4, there were other receipts of the nature of borrowed money, namely, £3,000,000 repayment (out of money from the loan guaranteed and practically lent by England) from the Transvaal and Orange Free State; and £9,600,000 borrowed as New Debt, consisting of New Permanent Debt (£5,200,000), New Temporary Debt (£2,000,000), and money taken from the Treasury Balances, £2,300,000. These 12½ millions were all practically New Debt, and if added to the 141½ millions make the Total Exchequer receipts for 1903-4, £154,200,000.

This might be thought to be all, but it is not so; for in addition there was—(3) Revenue intercepted and *not paid into the Exchequer*, amounting to no less than £22,600,000, whereof £9,700,000 was derived from Customs, Excise, and Estate Duties, and paid directly by the collecting Departments to the Local Taxation Account; while £12,300,000 represented Appropriations-in-Aid, or receipts by the Departments appropriated to and spent by them in addition to the sums voted; and £500,000 represents the Light Dues collected by the Customs Department and

paid over by it to the Lighting authorities. Consequently the total State Revenue for 1903-4 amounted to £176,953,169.

The table in the appendix, showing the whole of the receipts and issues, with references to the sources whence the figures are derived, shows this in detail.

Thus it will be seen that there is £22,600,000 omitted on both sides of the Account—£22,600,000 figuring neither on the Receipt side nor on the Expenditure side, though every farthing of it was both received and expended—and that the National Accounts were to that extent falsified; so that the State Revenue and Expenditure, instead of being either 141½ or 154¼ millions in round figures, was close on 177 millions.

The following is a statement of the State Revenue abstracted from the table in the appendix:—

STATE REVENUE.

	1903-4.	1893-4.	Increase.
1. Revenue paid into Exchequer	£ 141,500,000	£ 91,100,000	£ 50,400,000
2. Receipts from borrowed money including Treasury Bal- ances (Net) .	12,700,000	(a) 1,000,000	11,700,000
3. Receipts inter- cepted . . .	22,700,000	14,500,000	8,200,000
State Revenue	<u>176,900,000</u>	<u>106,602,387</u>	<u>70,300,000</u>

It appears then that in the ten years there has been an increase of 70 millions on 107 millions.

Is this increase justified?

(a) It is to be noted that in 1893-4, the Treasury balances, instead of being diminished, were added to—see Appendix.

Lond. Sch. Econ. & Pol. Sci. Ex

It may confidently be said that without injury to the public service many millions of expenditure might have been, and might still be, saved, and the nation to that extent relieved.

Take the increases in the Army, Navy, and Education Expenditure: they are as follows:—

	1893-4.	1903-4.
Army and Ordnance Factories Voted in Supply by the House of Commons . . .	£ 17,940,000	£ 36,675,999
Appropriations-in-Aid Inter- cepted and not voted in Supply	2,948,982	6,804,489
Issues under Barracks and Military Works Acts . .	680,000	2,950,000
Army total	<u>£21,568,982</u>	<u>£46,430,488(a)</u>

Thus, while the apparent difference of expenditure on the Army, between the two years compared, as shown by the sums voted, is only £18,736,999, the total difference when all is taken into account is as much as £24,861,506.

	1893-4.	1903-4.
Navy Voted in Supply by the House of Commons . . .	£ 14,048,000	£ 35,476,000
Appropriations-in-Aid Inter- cepted and not voted in Supply	990,878	1,417,341
Issues under Imperial Defence and Naval Works Acts . .	37,000	3,318,000
Navy total	<u>£15,075,878</u>	<u>£40,211,341(b)</u>
Army & Navy (together)	<u>£36,644,860</u>	<u>£86,641,829(c)</u>

a) In addition to this sum, there was a further expenditure on the Army, provided for and voted in the Civil Service Estimates, of £498,091, which, added to the above makes the total for the Army in 1903-4 to amount to £46,928,579. (Army Estimates, 1904-5, p. 10).

(b) In addition to this sum, there was a further expenditure on the Navy, provided for and voted on the Civil Service Estimates, of £302,135 (Navy Estimates, p. 7), making the total for the Navy in 1903-4 amount to £40,513,446.

(c) Including the extra expenditure cited in Notes (a) and (b), this total amounts to £87,442,155.

Thus, while the apparent difference of expenditure on the Navy, between the two years compared, as shown by the sums voted is only £21,428,000, the total difference when all is taken into account is as much as £25,135,463.

Taking the two Services together, the apparent increase, as shown by the votes in Parliament, is £40,164,999; the real total increase is £49,996,969, or close on 50 millions, added in ten years to 36½ millions.

Education, which in 1893-4 cost the State (according to the Fowler return) 8½ millions, in 1903-4 cost as much as 13½ millions in round figures, an increase in ten years of 5 millions.

The Increase of 5 millions on Education, bringing its cost to a total of 13½ millions, is not represented by a real increase in the real education of the people, but only by the extra cost of an inadequate system, which is a reproach to the country, and an abiding source of discontent.

The Increase of 50 millions on the Army and Navy, bringing their cost to a total of 86 millions, is as certainly not represented by a corresponding increase of the influence of Great Britain in the counsels of Europe, or of her power in the world.

Most especially true is this of the increased cost of the Army, which is even now under yet another process of reconstruction. It is also true, in a scarcely less degree, of the Navy.

The effectual value of Armies and of Navies is to be measured, not by their size, but by the use made of them, and of the power they give in peace and in war. An immense Army, a most preponderating Navy, may, if mishandled at the critical moment, be found of small avail either

for success in war or for influence in peace, against far inferior forces. Recent experiences afford significant illustrations of this truth.

Only too many instances might be cited of expenditure either unnecessary, wasteful, or even mischievous. Two are here cited:—

I. *Gibraltar*: The Expenditure proposed for one dock and moles in 1895, of £1,400,000, was increased in 1896 and 1897 to £4,300,000 for three docks. This was an addition of 3 millions expended to make Gibraltar, not safer, but less safe and more tempting to an enemy.

II. *The Cunard Agreement*, whereby £2,600,000 is lent to the Cunard Company, while there is to be paid to them yearly £150,000 for 20 years, or 3 millions in all, as a subsidy for the use of two liners in time of war as cruisers—a most wasteful and unnecessary expenditure, testified to be such by no less a person than Sir Michael Hicks-Beach in October, 1902, when he had but recently left the Exchequer, and admitted by the Admiralty itself to be so, inasmuch as the Admiralty is itself building eight scouts at a cost of £2,280,000 to do this very work. There is, besides the loan of £2,600,000 and the annual payment of £150,000, a further annual payment of £68,000 for 20 years to the Cunard Company, to which no objection need be taken, inasmuch as it is a postal subsidy. But the total effect of the Cunard Agreement is that the British Government, in meal or in malt, in loan or in payment, has undertaken to finance the Cunard Company to the extent altogether of no less than £6,960,000, for 5½ millions of which the country will get practically nothing in return.

These instances, were it not wearisome to do so, could be multiplied many times, but these will suffice to show what is meant by wasteful and wanton Expenditure.

A close student of British Finances cannot but conclude that the vast increase in our national expenditure does, on the whole, mainly arise from a want of due control of ambitious departments, from a disregard of economies, a contempt for frugality, and a lavish, wasteful, wanton, and unnecessary expenditure all round.

Such an expenditure has only been rendered possible by the deliberate destruction of many important constitutional checks thereon which formerly existed; by evasion or denial in various ways of Parliamentary control and Parliamentary audit; by an almost complete break-up of the sound system of payment of all receipts into and of all issues out of the Exchequer, established by the Exchequer and Audit Act of 1866; and by a systematic falsification of the State Accounts.

THE CONTROL OF PARLIAMENT IMPAIRED.

When such Expenditure is proposed by a Chancellor of the Exchequer and countenanced by a Prime Minister, it is impossible to expect that a House of Commons, in which that Prime Minister has a majority, should give adequate resistance to Ministerial proposals, however wanton or extravagant.

But even if the House of Commons could be expected to resist the Ministry it has created, its power of doing so has been of late years reft from

it in a manner which to the student of Finance must be most alarming, and which is calculated to lead to results most disastrous. Here are some instances of this :

1. *Appropriations-in-Aid withdrawn from the control of the House in Committee of Supply* : While in 1903-4 the House of Commons voted in Supply £117,180,000 for the Army, Navy, and Civil Services, those Services spent in addition to that £12,394,721, not one penny of which had been voted by Parliament at all, but which were derived from other receipts than those from Votes in Supply, and applied as Appropriations-in-Aid to the expenses of the Services. This is nearly double the Appropriations-in-Aid of 1893-4, which were £6,840,000.

2 “ *Capital Expenditure* ” for Works : In addition to that £12,300,000, there was also issued to various Departments in 1903-4 no less a sum than £7,305,000, which also was not voted by Parliament in the Annual Committee of Supply, but was derived from loans contracted by virtue of various Acts of Parliament passed for each loan in the lump at a preceding period. In 1893-4 these issues were but £877,000.

3. *Supplementary Estimates* have become so abused and increased as to amount to a scandal as well as a danger. The whole Finance of the year is presumed to be, and ought to be, submitted in the Budget Statement ; for it is upon that Statement, as a complete arrangement for the year, that Parliament is induced to agree to the Financial proposals for new taxation and debt, or for the remission of old taxation, which are embodied in the Budget. Supplementary

Estimates are a disavowal of and a departure from the Budget ; and although when unforeseen Expenditure arises, caused by a contingency that could not have been expected when the Budget was framed, Supplementary Estimates may be justifiable, they are not excusable under any other circumstances ; nor under other circumstances should they ever be proposed by the Government or accepted by Parliament.

Nevertheless, Supplementary Estimates, of late years, instead of being exceptional, have been proposed by the Government and accepted by the House of Commons as though they were matters of course. Year by year they have been presented with less excuse and more assurance, until at last, in this year 1904, what cannot but be called the acme of Financial impudence was reached, by the presentation of a Supplementary Estimate before the Finance Bill embodying the Budget proposals had even been passed by Parliament.

In 1893-4, Supplementary Estimates amounted to £592,227 ; in 1894-5 to £655,189. But since 1894-5 Supplementary Estimates have never been less than 2 millions, and in 1903-4 they were £4,610,000. They seem now to be adopted as a settled part of the regular procedure of our Finance, with the effect that, after Parliament has agreed to what professes to be the definitive and final Budget for the whole year, it is now annually called upon at a later period to consider another, and what is in fact a Supplementary, Budget of yearly increasing amount

4.—*Votes on Account for Civil Services.*—That from time to time the Government should claim and receive from Parliament advances to provide

for current expenditure is inevitable. But in order that Parliament should keep control over the Government, it is most necessary that the advances should be of relatively small amount and for a relatively short time. And this was, in fact, the old rule. Up to the year 1896, the practice of Ministers was to ask, and of Parliament to grant, no more, in a vote on Account, than from 3 to 5 millions, or such a sum as would suffice to provide for the expenditure during one month, six weeks, or at the outside two months. But in 1897 the Government for the first time asked and obtained a Vote on Account for £10,300,000 to cover an Expenditure, not of one or two, but of four months. That system has still been continued and extended without resistance by the House of Commons, and the last Vote on Account was for no less than £21,500,000, sufficient to provide for the Expenditure, not of one or of two, but of nearly five months. It is unnecessary to insist upon the loss of Parliamentary control which has thus ensued.

5. *The New Standing Orders* of the House of Commons, of 1902, have dealt a heavy blow at Parliamentary control. For they limit the discussion of Supply to 23 days, and, at the end of those days, every one of the votes still remaining over is automatically submitted to the guillotine, and passed at the rate of millions in minutes without any discussion whatever. The effect of this has been to deprive the Opposition and Independent Members of all that power which formerly existed of bargaining with the Government for special discussions and concessions, in return for votes in Supply and assistance in

ending the Session. Under the new Standing Order, the Session and Supply are ended automatically. The Government cares nothing now what votes are debated, or how long the debates may be—and, in fact, it is now found that Ministers take a very large part of the debating time to themselves, leaving an altogether inadequate portion to Independent Members. They know that at the end of the 23 days they will get all the remaining undiscussed votes by the guillotine ; and, as a matter of fact, among those undiscussed votes it invariably happens that there are many which urgently need discussion, but have obtained none.

A remedy which would have alleviated this was proposed by the Committee on National Expenditure in July, 1903. In adoption of recommendations made by myself, that Committee proposed that there should be annually appointed an Estimates Committee to examine each year one of the four classes of votes, and to report upon it before it came to the House in Committee of Supply. It also recommended that an opportunity should be annually afforded for the discussion of the very important reports of the Public Accounts Committee, which are at present merely pigeon-holed, without any Parliamentary attention being given to the momentous questions they raise. These recommendations, however, though received with favourable mention by the Prime Minister, and though constantly pressed, have been set aside and remain of no effect.

6. *Permanent and Annual Revenue.*—The control of the House of Commons has been further impaired by the increased proportion of permanent

revenue levied under standing Acts of Parliament, and therefore not requiring the annual consent of the House of Commons; as compared with the Revenue granted for one year only, and which consequently does require the annual agreement of the House. In 1902-3, out of a total of £161,700,000 of Revenue, £49,200 000 required the annual assent of Parliament, which thus annually controlled 30.46 per cent. of the Revenue; not a large proportion, nor so large as it should be. But in 1904-5, out of £153,300,000, only £42,700,000 is of an annual character, all the rest being permanent; so that in the present current year, instead of over 30 per cent. of the whole being under the annual control of Parliament, no more than 27.8 of the whole remains under that control. This tendency to withdraw from annual revision the Revenue of the country, and to place it under permanent Acts of Parliament demanding no annual Parliamentary revision, is another element of danger, and another instance of the way in which the control of Parliament has been lost.

7. *The Appropriation Act* annually passed is deemed the great security for Parliamentary control, inasmuch as it appropriates every separate grant by Parliament to a specific service or purpose, all such services and purposes and the sums appropriated to each being set forth in the Schedule to the Act.

This is intended to secure that money granted by Parliament for any particular purpose shall not be diverted to any other purpose, and that no other sums than those thus appropriated shall be applied to any purpose whatever.

But in fact the intention of the Appropriation Act is defeated and its securities nullified in two ways:—

(1) First, by the power, given to the Treasury under the Public Accounts and Charges Act, 1891, to authorise the application to Expenditure of receipts by the Departments, under the name of Appropriations-in-Aid, which, as already stated, amounted in 1903-4 altogether to £12,394,721.

(2) Secondly, by the power, given by a clause in the Appropriation Act itself, to the Treasury, to authorise, in the case of the Army and the Navy, the disappropriation of the sums appropriated by the Act to the particular purposes of those Services, and their reappropriation to other purposes. The amounts thus diverted, by the sole authority of the Treasury, from the purposes to which they had been appropriated by Parliament amounted in the year 1902-3, as shown by the Appropriation Act, 1904, to no less than £2,532,862.

These diversions have, it is true, to be subsequently authorised by Parliament, by a Resolution submitted usually some 17 months after the close of the year in which they have taken place. But this Resolution is always submitted at the end of the Session, with few Members present, and has come to be passed as a matter of course. It is apparently not duly recognised that the Resolution itself is, in fact, a repeal of the Appropriation Act, which it varies, and a substitution for the Appropriation made by the Act, of a subsequent disappropriation and reappropriation by the Treasury.

LOCAL REVENUES.

If we would know the real, total burden on the People, we must take into account not alone the Revenue raised and expended by the State, but also that raised and expended by the Local Authorities. For, be it remembered that Local Authorities as well as State Governments are paupers. They earn nothing, they produce nothing, they have nothing, except what is contributed, in return for the State and the local services they respectively render, by the People at large. How then stands the Local Expenditure?

LOCAL EXPENDITURE (a).				Increase in 10 years.
	1893-4.	1901-2.	1903-4. (Estimated)	
	£	£	£	
England and Wales	72,806,275	121,500,000	139,000,000	
Scotland	10,211,621	16,800,000	17,500,000	
Ireland	4,711,807	6,700,000	7,300,000	
United Kingdom	87,720,703		163,800,000	76,000,000
Deduct Government contributions for United Kingdom	10,800,000		16,000,000	
	<u>£76,900,000</u>		<u>£147,800,000</u>	

Add this now to the total State Revenue, as shown on p. 5, and the following is the result:—

	1903-4.	1893-4.	Increase.
State Revenue	176,900,000	106,600,000	70,300,000
Local Expenditure	147,800,000	76,900,000	70,900,000
	<u>£324,700,000</u>	<u>£183,500,000</u>	<u>£141,200,000</u>

These naked figures show that, in ten years, the total annual amount extracted from the citizen, in one shape or another, in return for State and Local Services, and on them expended, has risen, in round figures, from 183½ millions to over 324½ millions—an increase of no less than 141 millions.

(a) The latest ascertained official figures available (Statistical Abstract of the United Kingdom, No. 51, pp. 44/51) are those for 1901-2. The estimated figures for 1903-4 are based on the assumption of similar increases subsequently to 1901-2, as those of recent years before and up to 1901-2. The estimates thus reached will, it is believed, be rather under than over the actual sums when these are ascertained.

Government contributions, being already included in State Expenditure, are deducted to avoid counting them twice in the total. But the true, total Local Expenditure is the larger sum, before making this deduction.

So stupendous an increase as this—an increase which approaches a doubling of the People's burdens in ten years—is well calculated to raise the greatest apprehensions in the breast of the boldest financier. And yet this is not the whole, nor is it, in fact, the worst of the story.

DEBT.

The worst feature of our recent Finance is the increasing extent to which Expenditure is met by borrowing—not by addition alone to the Funded Debt, but by every form of borrowing—Funded Debt, Unfunded Debt, Terminable Annuities, Works Loans, Treasury Bills, Exchequer Bonds, Advances from the Bank of England to cover deficiency of income, and Drafts on the Exchequer balances ; each one of these methods of borrowing being often of such a character and having such an effect as seriously to impair the other methods. The Funded Debt, for instance, represents money borrowed nominally at $2\frac{1}{2}$ per cent., but really, at its present price, at over $2\frac{3}{4}$ per cent.; whereas the issues of Exchequer Bonds and Treasury Bills have cost the Government the much higher rate of 3 per cent. and over. The last issue, on 8th November, 1904, of six months' Treasury Bills for £2,000,000 was made at £3 2s. 10d. per cent. It can hardly be necessary to insist on the mischief to the National credit and the injury to the market value of Government securities caused by these diverse methods of borrowing at diverse rates of interest.

The Funded Debt has increased from £587,600,000 in 1893-4 to £637,600,000 in 1903-4, an increase of 50 millions.

The Funded Debt is, it is true, provided with two Sinking Funds, which are supposed gradually and certainly to reduce it. One of them is called

the Old Sinking Fund, and consists of the surplus of Revenue over Expenditure (when any). This, however, has in recent years either not come into existence at all, through there being no such surplus; or else, when such a surplus of any considerable amount has existed, it has been appropriated to other purposes than the extinction of the Funded Debt. Thus, while in 1894-5 and in 1895-6 the relatively small surpluses of £750,000 and £765,000 were allowed to go in reduction of the Funded Debt, the case was far otherwise in the three succeeding years, 1896-7, 1897-8, and 1898-9. In those years the surplus Revenue representing the Old Sinking Fund amounted to £4,200,000, £2,400,000, and £3,600,000 respectively; and had these sums been allowed to reach their allotted destination, they would have reduced the Debt by over £9,000,000. But they were all diverted to other purposes, such as Naval Works, Military Works, and Public Buildings. Nor is it at all likely that the Old Sinking Fund will ever again play a serious part in the reduction of debt, unless Chancellors of the Exchequer are curbed and supplementary estimates refused.

The other, called the New Sinking Fund, consists of any balance which is left over from what is known as the Permanent or Fixed Annual Charge for the Debt, after payment thereof of (1) the Interest of the Funded Debt; (2) the year's charge for Terminable Annuities; (3) the Interest of the Unfunded Debt; and (4) the charge for Management of the Debt. The balance is a relatively insignificant sum at most; but even this Sinking Fund was suspended in 1900-1 and 1901-2. In 1902-3 it amounted to £73,000, and in 1903-4 to no more than £1,400,000.

The truth is that the present Fixed Charge of £27,000,000 is inadequate to the Debt as the latter now stands; and that the balance of it available, even under the most favourable circumstances, for the New Sinking Fund, must always therefore be insufficient for any effectual reduction of the Debt. One of the most pressing of our needs for restoring soundness to the national Finances is the increase of the Fixed Charge to at least £28,000,000. The jealous guardianship of Sinking Funds, whether Old or New, against their natural enemy, the Chancellor of the Exchequer, is a duty which has recently been greatly neglected by Parliament.

If the Funded Debt, with its insufficient Sinking Funds, stood alone, it would be bad enough; but it does not stand alone. (1) The so-called "capital liabilities" in respect of sums borrowed for works, have increased from £2,400,000 in 1893-4 to £31,800,000 in 1903-4. (2) Above all, the Unfunded Debt has increased from £21,400,000 in 1893-4 to £73,600,000 on 31st March, 1904, and since then has been still further added to, so that on the 10th August, 1904, it amounted to no less than £82,183,000. This Unfunded Debt is the most serious and dangerous item of all; for while the Funded Debt is provided with its two Sinking Funds, which, although one of them is illusory and the other altogether inadequate, have some effect in reducing it, there is no provision whatever made for the extinction of the Unfunded Debt, which is rising so rapidly and so alarmingly.

The total aggregate liabilities of the State—Funded Debt, Unfunded Debt, Terminable Annuities Liability, and so-called Capital Lia-

liabilities—have increased from £667,200,000 in 1893-4, to £794,500,000 in 1903-4, an increase of 127 millions, the greater part of this increase being, as will be seen, not inside, but outside of and in addition to the Funded Debt, or the National Debt usually so called (a).

GUARANTEED LOANS AND CONTINGENT LIABILITIES.

But besides our own State liabilities, there are others of a very serious character, in the shape of Loans guaranteed by the British Government, and for which the United Kingdom is to the full as responsible as for its own debt. These guaranteed loans include :—

£1,000,000 for New Zealand,
£6,900,000 for Canada,
£35,000,000 for the Transvaal and Orange River Colony.
£13,500,000 for Irish Land purchase, and
£74,000,000 of Local Loans.

The total amount outstanding on the 31st March, 1904, in respect of these loans, and of the Savings Bank liabilities, was £154,457,000, which is, in fact, an extra liability of the State to be added to those already mentioned. It is true that £17,700,000 of this is guaranteed by other Powers jointly with Great Britain, but the whole of the rest is a liability of Great Britain alone. It is also true that in May, 1903, His Majesty's Government pledged themselves to the undertaking that the Transvaal should raise, as a set-off to the British Guaranteed Loan of £35,000,000, and as the Transvaal contri-

(a) It is to be borne in mind that the annual charge in respect of Terminable Annuities includes a repayment of capital and a consequent reduction of liability in respect of these.

tribution to the expenses of the War, a loan of 30 millions at 4 per cent.; and it is further true that 10 millions of this was at the time underwritten by certain Transvaal Mining Firms. But it is equally true that no steps have yet been taken to issue the loan, or to enforce the underwriting guarantee; and there seems to be an increasing probability that neither the whole loan, nor even the 10 millions promised to be underwritten, can now be safely counted upon, unless it be shortly and vigorously required by the Home Government.

SAVINGS BANK LIABILITIES.

Among the most serious of the so-called contingent, but nevertheless very real, liabilities of the State are those which have been, in recent years lightly assumed, and left quite inadequately provided for, in respect of Savings Banks deposits.

At the end of 1903 the State held monies due to:—

	£
Post Office Savings Bank Depositors . .	146,135,147
Trustee Savings Bank Depositors . . .	49,995,372
Total . . .	£196,130,519

The whole of this vast sum is practically payable at call, or at a few days' notice, yet there is no gold reserve such as is held by Bankers with similar liabilities, and with the exception of a trifling cash balance in the Bank, these 196 millions are wholly represented by public securities, which, in case of serious calls on the Savings Banks, must be sold before its liabilities could be met—a very dangerous state of things. The possession, however, of this vast sum, representing the savings of the poor, has enabled recent

Governments to finance themselves with great ease by borrowing from the Savings Banks (as a sort of domestic transaction or inter-departmental loans) vast sums of money. This resource will, however, certainly not in future remain open to them to the same extent. When the Savings Bank depositor sees Consols at a price giving over $2\frac{3}{4}$ per cent., and the Government raising money at 3 and $3\frac{1}{2}$ per cent., he is not likely to continue anxious to give them his savings at the much lower rate of $2\frac{1}{2}$ per cent. paid to himself. As a matter of fact, during the first 5 months of 1904 the Post Office Savings Bank deposits fell off, as compared with the same period of the previous year, by nearly half a million, while the withdrawals in the same period exceeded the deposits by over £300,000. It would seem, therefore, that one of the self financing resources of Governments promises to fail them in future, and that the easy borrowing, by one department of the other, of the savings of the poor must no longer be counted upon with certainty. If this be so, it will be of some advantage, as tending to greater difficulty in borrowing, and therefore to sounder Finance.

Meantime there is this very serious fact: that on 20th November, 1903, the assets held for the Trustee Savings Banks were insufficient to meet the liabilities by £3,512,878,

and that on 31st December, 1903, the

assets held for the Post Office

Savings Bank were insufficient to

meet the liabilities by 11,033,060

Total £14,545,938

The present situation is, indeed, worse than

these figures disclose. For it is unquestionable that in case of large demands for repayment by the Depositors, and of a consequent necessity for forced sales of large amounts of public Securities, those sales would reduce the price of those Securities much below that at which the assets were valued, and so would increase the insufficiency of those assets. But, taking the figures merely as they stand, it is a fact of the gravest import that the Savings Banks should be, on their own showing, insolvent to the extent of 14½ millions—for every penny of which the Consolidated Fund, and, in the last resort, the British taxpayer, is liable.

LOCAL DEBT.

The evil example set by the National Government has been followed by Local Governments; and the outstanding loans of local authorities are as follows :—

	LOCAL DEBT (a).			
	1893-4.	1901-2.	1903-4. (Estimated.)	Increase in ten years.
	£	£	£	£
England & Wales	224,100,000	343,400,000	398,000,000	173,900,000
Scotland	31,800,000	49,200,000	55,000,000	23,200,000
Ireland	9,100,000	14,400,000	16,000,000	6,900,000
Total for United Kingdom }	<u>265,000,000</u>	<u>407,000,000</u>	<u>469,000,000</u>	<u>204,000,000</u>

NATIONAL LIABILITIES.

Taking the preceding figures and bringing them together, there can now be established the whole of the National Liabilities as they appeared on 31st March, 1904, always keeping in mind that—as between that date and 10th August the Unfunded Debt was increased by £8,400,000, so

(a) The latest ascertained official figures available (see Statistical Abstract) are those for 1901-2. The estimated figures for 1903-4 are based on the assumption of similar increases subsequent to 1901-2, as those of recent years up to and including 1901-2. These estimates will probably be rather under than over the actual sums when these are ascertained.

many of the other items have since been increased, and that the figures given—large as they are—do not therefore fully represent the whole of the national liabilities, as they would stand in an account made up to to-day.

The whole of our national liabilities stand, therefore, as on 31st March, 1904, thus:—

	31 Mar., 1904.	31 Mar., 1894.	Increase.
	£	£	£
1. Funded Debt . . .	637,600,000	587,600,000	50,000,000.
2. Unfunded Debt (£82,000,000 on 10th August, 1904) . .	73,600,000	21,400,000	+ 52,100,000.
3. Terminable Annuities liability	51,363,000	55,717,000	— 4,400,000.
4. "Capital Liabilities" for Works	31,800,000	2,400,000	+ 29,400,000.
5. Guaranteed Loans and Contingent Liabilities	154,457,000	70,937,000	+ 83,500,000.
State Liabilities . .	948,820,000	738,054,000	210,700,000.
6. Local Authorities Loans	469,000,000	265,100,000	204,000,000.
Total Liabilities of the Nation . . .	<u>£1,417,820,000</u>	<u>£1,003,100,000</u>	<u>£414,700,000</u>

An increase of Debt liabilities in 10 years of no less than 414 millions !

Figures such as these beggar all comment.

SUMMARY.

In brief, therefore, the case stands thus:—

(1) The Revenue raised by the State has increased in ten years from 107 to 177 millions—an increase of 70 millions.

(2) That portion of the State Expenditure affected to the Army and the Navy has risen in the same period from 36½ millions to 86½ millions—an increase of 50 millions.

(3) Expenditure on Education has risen in the same period from 8½ to 13½ millions—an increase of 5 millions.

(4) A great portion of this increase is due to lavish, wasteful, wanton, and unnecessary Expenditure.

(5) The liabilities of the State have risen in ten years from £738,000,000 to £948,800,000 — an increase of over £210,000,000.

(6) The total liabilities of the Nation, including Local Debt, have risen in ten years from £1,003,100,000 to £1,417,820,000—an increase of £414,700,000.

(7) The control of Parliament over, and its power of checking, the growth of Expenditure and Debt have been most seriously diminished in several important respects. All proposals to re-establish the control of, or to restore power to, Parliament have been set aside.

(8) State Expenditure and State Liabilities in the shape of Debt, especially in the shape of Unfunded Debt, have been so largely increased, and have moreover been increased by such diverse and unwise methods, as to amount now to a public danger.

The national credit is materially impaired. Consols have fallen from 113 and over, in 1896 to 88 and over, at the present day; Bankers and those who hold large amounts have written down the price of their Consols as assets to 85; the world has thus shown that it is not now willing to lend to Great Britain under a rate of interest within a fraction of 3 per cent., instead of the nominal $2\frac{1}{2}$ per cent. to which the interest on Consols was prematurely and unwisely reduced; and as a matter of fact the Treasury has to pay, not $2\frac{1}{2}$, or even 3, but over 3, per cent. for money. When we find Treasury Bills bearing an interest of over 3 per cent., it seems certain that in case any great call had to be made on the

financial resources of the country—such a call, for instance, as a European War would make—the two, three, or four hundred millions which would be probably required, could certainly not be raised under a rate of interest nearer to 4 per cent. than to the $2\frac{1}{2}$ per cent. which is the nominal rate for the Consols of the present Funded Debt.

Unless we are prepared to remain in a state of financial confusion which must lead to great dangers, if not to disaster, the National Credit must be restored. To this end, the urgent need of the moment is undoubtedly that the terrible and unprecedented Unfunded or Floating Debt should be reduced. This consisted, on 10th. August, 1904, of:—

1. War Stock and Bonds,	£	
$2\frac{3}{4}$ per cent.	30,000,000, due 1910.	
2. Exchequer Bonds, Interest		
nominally 3 per cent., but (taking		
into account their varying rates of		
issue and bonus on repayment at		
par) really about $3\frac{1}{2}$ per cent. per		
annum all round	20,500,000	Repayable at par Dec., 1905,
		and Aug., 1907
3. Treasury Bills Interest £25s.		
to £3 5s. per annum, average 2.8		
per cent. per annum al. round . . .	29,133,000.	
4. Temporary Advances on		
credit of Ways and		
Means	2,550,000	
	<u>£82,183,000</u>	

The interest on so largely increased a Floating Debt, when added to the Interest on the Funded Debt, to the charge for Terminable Annuities, and to the charge for management of the Debt, will make so large a demand on the 27 millions of fixed charge allocated to these four purposes as may leave but little balance to go to the New Sinking Fund in 1904-5 (a). This New Sinking Fund is practically now the only one of the two in exist-

(a) The Interest of the Unfunded or Floating Debt for 1903-4, at the end whereof it stood at £73,633,000, was £2,422,435, which is at the rate of 3.29 per cent. all round.

ence, and it is only estimated to amount for 1904-5 to £1,900,000, an altogether inadequate sum, even if it be fully realised, in view of the enormous liabilities of the State. Should this inadequate sum be rendered still more inadequate by the increased demands of the Floating Debt, another new mischief will have arisen.

The existence of this Floating Debt is, moreover, not merely affecting the National Credit. It tends to embarrass Trade and to prevent its revival. A Floating Debt of this large amount takes a great part of what is called the "short loan money" of the Money Market to carry it, and thereby diverts that money from ordinary legitimate business and injures both the Money Market and the trade of the country. Until this Debt is materially reduced, it is therefore not possible for Trade to attain a sound and healthy basis.

What, then, can be done to reduce the Floating Debt?

There has never been alleged any sufficient reason why the mine owners of the Transvaal should not now be called upon to act up to their guarantee of 10 millions, or why the Transvaal should not issue the whole stipulated loan of 30 millions at 4 per cent. on the security of its revenues, with (if necessary) a special hypothecation of 10 per cent. of the gross output of the Mines. The authority given by Parliament to guarantee the 35 millions authorised was expressly declared by H.M. Government on 6th May, 1903 to be "conditional upon the contribution of £30,000,000." The Government subsequently promised the first instalment of this contribution "probably at the commencement of 1904." But Great Britain having, by her guarantee, procured

the 35 million loan (30 millions whereof were issued before 31 March, 1904, and the rest since), nothing has since been heard of the 30 million Transvaal contribution promised in return. The commencement of 1904 has passed, its end is at hand, and the undertaking is still unfulfilled, by any steps towards the issue of the loan. That such an issue would be possible is proved by the fact that in May, 1904, the Cape Town Municipality issued a £300,000 four per cent. loan at 98, and since then has issued another (£368,000) 4 per cent. loan at 98½.

This 30 millions, be it remembered, is the agreed contribution towards the expenses of the War. It is due—and overdue; and it would be of very great relief to our Floating Debt of over 82 millions.

Failing this, the Floating Debt must be reduced in one of the only two other ways—either by a large reduction of expenditure, and the application of the saving to diminution of the Floating Debt; or else by raising a considerably increased sum in extra taxation, to be devoted to that purpose. Certain it is that unless some adequate means be very shortly taken to diminish the Floating Debt, the consequences must be most serious.

The importance of this matter of Finance cannot be over-rated. It lies at the very root of the national capacities of every kind. The extravagances of our expenditure, the dangers of our Debt, the confusions of our financial system, are gross and palpable. The situation is now such as will so little brook further neglect that it behoves us at once to seek remedies for the abuses to which the naked figures above cited do but too eloquently testify.

The nation is wealthy, prosperous, and able to bear a great load of taxation. But no nation can long continue to bear such loads, so increased, so increasing, and so adjusted as these. Unsparing Retrenchment, Jealous Frugality, stern Avoidance of Debt, a Restoration of the checking power to Parliament, the presentation of true and complete Accounts to the People, and also wiser methods of Taxation, taking more account of modern conditions of life and of human nature—these are the remedies that at once suggest themselves.

The adoption, however, of even the least of such remedies requires a Chancellor of the Exchequer fitted by natural aptitude, by acquired knowledge, by financial experience and fiscal imagination, to deal with our finances as the times need. It requires also a Prime Minister profoundly convinced of the necessity for financial retrenchment, and ready to give to his Chancellor of the Exchequer that full support without which none can be effected. Unless we may confidently look for these qualities and for their exercise, Parliament can have but little power to check a mischief that has gone so far.

But even though Ministers and Parliament should alike be wanting, there remains the power of the People to insist upon that which they are convinced is necessary. It is in the hope of contributing, in some measure, to the formation of so strong a public conviction as cannot be disregarded that these pages have been written.

THOS. GIBSON BOWLES.

25, LOWNDES SQUARE,
16 November, 1904.

REFERENCE.		1899-4	1903-4.
		£	£
a. Finance Accounts, p. 8.	II.—1. Customs - - - - -	a. 19,707,000	a. 33,850,000
b. Finance Accounts, p. 10.	2. Excise - - - - -	a. 25,200,000	a. 31,550,000
c. Finance Accounts, pp. 10 & 12.	3. Estate, etc., Duties - - - - -	...	a. 13,000,000
d. Finance Accounts, p. 12.	4. Stamps - - - - -	a. 12,860,000	a. 7,500,000
e. Finance Accounts, pp. 10 & 11.	5. Land Tax - - - - -	a. 1,035,000	a. 725,000
Finance Accounts, pp. 12 & 13.	6. House Duty - - - - -	a. 1,425,000	a. 1,925,000
g. Finance Accounts, pp. 14 & 15.	7. Property and Income Tax - - - - -	a. 15,200,000	a. 30,800,000
h. Finance Accounts, pp. 8 & 15	8. Post-Office - - - - -	a. 10,470,000	a. 15,450,000
i. Finance Accounts, p. 14.	9. Telegraph Service - - - - -	a. 2,540,000	a. 3,700,000
j. Estimate Budget Speech : 19/4/04	10. Crown Lands (Net) - - - - -	a. 420,000	a. 460,000
k. Comptroller & Auditor-General	11. Receipts Suez Canal Shares and Sundry Loans - - - - -	a. 218,630	a. 982,475
l. Statistical Abstract, p. 35.	12. Miscellaneous Receipts - - - - -	a. 2,057,779	a. 1,603,103
m. Statistical Abstract, p. 52.	EXCHEQUER TOTAL REVENUE - - - - -	a. 91,133,409	a. 141,545,578
n. Paper 253 of 1904.	IV.—Advances Re-Payment (Balance) - - - - -	b. 205,507	e. 80,000
o. Treasury Paper, Temp. and Perm. Revenue.	VI.—Money raised by Creation New Debt (Net) - - - - -	c. 964,289	f. 5,267,272
	VII.—Money Temporarily Borrowed (Net) - - - - -	d. 770,012	g. 2,000,000
	I. & IX.—Reduction of Treasury Balances (Net) - - - - -	...	h. 2,373,285
	IX.—Transvaal and Orange Re-Payment - - - - -	...	i. 3,000,000
	VII.—Casual Receipts - - - - -	d. 1,214	...
	EXCHEQUER TOTAL RECEIPTS (Net) - - - - -	93,074,431	154,266,135
REVENUE INTERCEPTED.			
s. Finance Accounts, p. 9.	1.—Customs Revenue intercepted for Local Taxation	k. 196,888	n. 203,105
t. Finance Accounts, p. 11.	2.—Excise Revenue " " "	k. 4,608,034	n. 5,396,387
u. Finance Accounts, pp. 8 & 13.	3.—Estate Duties Payments " " "	k. 2,359,029	n. 4,195,581
	REVENUE TOTAL INTERCEPTED FOR LOCAL TAXATION - - - - -	l. 7,163,951	n. 9,795,073
	8.—Post-Office Revenue intercepted for Apps-in-Aid (Railway Companies and Foreign and Colonial Postage) - - - - -	k. 842,441	n. 1,340,185
	9.—Post-Office Telegraph Revenue Intercepted for A-in-A (Cable Companies) - - - - -	k. 357,063	n. 529,520
	10.—Crown Lands Revenue intercepted for A-in-A (Woods and Forests Charges of Collection, etc.)	k. 104,624	n. 156,720
	12.—Miscellaneous Receipts intercepted for A-in-A (Fee Stamps, Land Registry, and Insurance Funds) -	k. ...	n. 9,881
	Army Revenues intercepted for A-in-A - - - - -	k. 2,948,982	n. 6,804,489
	Navy Revenue " " " - - - - -	k. 990,878	n. 1,417,341
	Civil Services " " " - - - - -	k. 1,216,964	n. 1,665,003
	Revenue Departments intercepted for A-in-A - - -	k. 379,108	n. 471,582
	REVENUE TOTAL INTERCEPTED FOR APPROPRIATIONS-IN-AID - - - - -	k. 6,840,060	12,394,721
	REVENUE TOTAL INTERCEPTED L.T. AND A-IN-A Revenue Customs intercepted for Trinity Board	k. 14,004,011	22,189,794
		m. 523,945	k. 497,240
	REVENUE TOTAL INTERCEPTED (ALL SOURCES) -	14,527,956	22,687,034
	STATE REVENUE GRAND TOTAL - - - - -	107,602,387	176,953,169

STATE EXPENDITURE.

31

REFERENCE.		189--4.	1903-4.
	I.—Consolidated Fund—	£	£
	National Debt - - - - -	s. 25,200,000	s. 27,000,000
	Other Services { Civil List, Courts } { Justice, Annuities, } { etc. - - - - - }	s. 3,109,766	s. 1,624,431
	Payments to Local Taxation Account (Agricultural Grants, etc.) - - -	...	s. 1,156,705
	CONSOLIDATED FUND TOTAL ISSUES - - -	s. 28,309,766	s. 29,771,136
	II.—Supply Services—		
	1. Army - - - - -	s. 17,939,700	s. 36,499,057
	" " 2. Ordnance Factories - - -	s. 300	s. 177,942
	" " 3. Navy - - - - -	s. 14,048,000	s. 35,476,000
	ARMY AND NAVY TOTAL - - - - -	s. 31,988,000	s. 72,153,000
	" " 4. Civil Services - - - - -	s. 18,226,090	s. 26,870,000
	" " 5. Revenue Departments - - -	s. 2,670,988	s. 3,085,000
	" " 6. Post-Office - - - - -	s. 6,721,000	s. 9,758,000
	" " 7. Telegraph Service - - - - -	s. 2,664,000	s. 4,528,000
	" " 8. Post-Office Packet Service - -	s. 723,000	s. 786,000
	SUPPLY SERVICES TOTAL - - - - -	s. 62,993,079	s. 117,180,000
	TOTAL EXPENDITURE chargeable against REVENUE	s. 91,302,846	s. 146,961,136
	III.—Issues to meet "Other" or "Capital" Ex- penditure - - - - -	£ 877,000	£ 7,305,000
	EXCHEQUER EXPENDITURE TOTAL - - -	92,179,846	154,266,136
	I. & IX.—Increase of Treasury Balances (Net)- -	u. 894,584	...
	EXCHEQUER TOTAL OUTGOINGS (Net) - - -	93,074,430	154,266,136
	EXPENDITURE (EXTRA) BY DEPARTMENTS.		
	1. Customs Revenue intercepted for Local Taxation	£. 196,888	n. 203,105
	2. Excise Revenue " " "	£. 4,608,034	n. 5,396,387
	4. Estate Duties Payments intercepted for Local Taxation - - - - -	£. 2,359,029	n. 4,195,581
	PAYMENTS TO L.T. a/c BY CUSTOMS, EXCISE, AND ESTATE DUTIES - - - - -	£. 7,163,952	n. 9,795,073
	8. Post-Office out of Revenue intercepted for A-in-A (Railway Companies and Foreign and Colonial Postage) - - - - -	£. 842,441	n. 1,340,185
	9. Post-Office Telegraph out of Revenue intercepted for A-in-A (Cable Companies) - - - -	£. 357,063	n. 529,520
	10. Crown Lands out of Revenue intercepted for A-in-A (Woods and Forests Charges of Collec- tion, etc.) - - - - -	£. 104,624	n. 156,720
	12. Miscellaneous Receipts intercepted for A-in-A (Fee Stamps, Land Registry, Insurance Fund) -	£. ...	n. 9,881
	Army Revenues - - - intercepted for Apps-in-Aid	£. 2,948,982	n. 6,804,489
	Navy " " " "	£. 990,878	n. 1,417,341
	Civil Services " " "	£. 1,216,964	n. 1,665,000
	Revenue Departments " " "	£. 379,108	n. 471,582
	OUT OF INTERCEPTIONS FOR APPS-IN-AID - - -	£. 6,840,060	12,394,721
	EXPENDITURE TOTAL BY DEPTS. OUT OF L.T. AND A-IN-A - - - - -	£. 14,004,011	22,189,794
	Customs Light Dues paid to Trinity Board - - -	n. 523,945	£. 497,240
	EXPENDITURE EXTRA BY DEPARTMENTS OUT OF INTERCEPTIONS FROM ALL SOURCES - - -	14,527,956	22,687,034
	STATE EXPENDITURE GRAND TOTAL - - -	107,682,386	176,953,170

A Comprehensive Weekly of unique interest to those who do not see the "Westminster Gazette" daily is the "Saturday Westminster" (Weekly Edition). This edition will keep them in touch with the views of the "Westminster" on public affairs and on literary and social topics. Among its special features are the famous Cartoons of the Week, by "F.C.G.," including a new one drawn for this issue. Readers with literary tastes will find a great attraction in the weekly Page of Problems (with prizes for solving them). Letters from far and wide prove that this page furnishes an intellectual stimulus as well as a literary pastime to a large circle of intelligent and cultivated minds. But the broad appeal which the "Saturday Westminster" makes to the reading public can only be suggested here by briefly indicating the general contents. These comprise short stories by clever writers, "Greville Minor's" brilliant political diary, Character Sketches of prominent people, full reviews of Books of the Week by accomplished writers, a causerie on public affairs, columns on Sport, Golf, &c., Nature and Science, Photography, Chess, Notes on Men, Women, and Things, with other features varying from issue to issue. The Saturday Westminster thus forms a high-class review-weekly, many-sided and unique. It consists of 16 or 20 pages, price One Penny, and can be obtained everywhere on Saturday, or post free from the office, for 6s. 6d. per annum; shorter periods *pro rata*.—The "Saturday Westminster," Tudor House, Tudor Street, E.C.